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SUBJECT: PRC PM WEN'S VISIT TO HANOI: TRADE TAKES THE FRONT SEAT

REFTELS: A) Hanoi 2745; B) Hanoi 2795; C) Beijing 15482 ; D)
Beijing 17091

11. (SBU) Summary: Chinese Premier Wen Jiabao's first official visit to Vietnam yielded a number of agreements in the trade and development areas and a renewed commitment to make progress in demarcating the two countries' land border. Considerable daylight still remains between the two sides on the Spratlys territorial issue, with Vietnam refusing to accept China's invitation to join the PRC and the Philippines in a joint exploration project. End Summary.

12. (U) Chinese Premier Wen Jiabao's first official visit to Hanoi, which preceded his participation in the October 8-9 ASEM-5 summit, focused mainly on trade and development issues, with territorial and border matters taking a back seat, according to our Vietnamese and Chinese contacts. Wen met separately October 7 with State President Tran Duc Luong, Prime Minister Phan Van Khai and Communist Party General Secretary Nong Duc Manh. Among the agreements and memoranda of understanding signed during Wen's visit were:

- an agreement on (unspecified) economic and technical cooperation;
- an MOU on the construction of a fertilizer plant and an agreement on the improvement of rail lines in northern Vietnam;
- agreements on food hygiene cooperation and a protocol on plant and border quarantine procedures;
- an agreement establishing working groups to implement new China-Vietnam economic corridors; and
- a "note of exchange" on Vietnam's "inapplication (sic) of three disadvantageous terms that China accepted for its WTO entry."

ECONOMIC ISSUES -- INCLUDING VIETNAM-CHINA WTO TALKS

13. (SBU) Dr. Do Tien Sam, Director of the Government-run Institute for Chinese Studies, told us that Premier Wen and Prime Minister Khai had a long discussion about measures to improve the bilateral economic relationship in order to bring it up to the level of the political one. The two sides also sought to expand further bilateral relations to "balance" them with each country's "other bilateral relations." According to Nguyen Vinh Quang, Director General of the Department of Northeast Asia of the Communist Party's External Affairs Commission, China has been "frustrated" by the unfavorable comparison of Vietnam-China economic interaction with that of Vietnam and Taiwan. For its part, Vietnam hopes to "create the conditions" for economic relations with China to continue to increase. However, Vietnam and China, as two countries attempting to "implement market economies," would have to obey the rules of the market, Quang said.

14. (SBU) During their meeting, Prime Ministers Wen and Khai agreed to aim for "free trade by 2010," the China Institute's Dr. Sam told us. However, in spite of the progress both sides have made to expand their economic relationship, Vietnam still has problems with China's failure to open its market fully, he said. For example, even when China grants flexibility on terms of trade, it still requires substantial concessions in response. China also blocks Vietnamese imports using non-tariff barriers such as phytosanitary restrictions on produce and local tariffs on foreign commodities, Sam said.

15. (SBU) On the question of Vietnam's WTO accession, Dr. Sam said that PM Wen relayed China's support for Vietnam's bid. However, Chinese support is conditioned on Vietnam's meeting arduous conditions. Vietnam "knows that it will be difficult to work with China." Vietnam's Minister of Trade Truong Dinh Tuyen told his Chinese counterpart that China's requirements are higher than those of the EU and the United States. Ultimately, Vietnam is counting on its successful bilateral negotiations with the United States and EU to convince China to compromise, Sam explained.

16. (SBU) PRC Embassy Economic Counselor Zhang Chixin confirmed that, in exchange for China's support for Vietnam's WTO accession, Vietnam had signed an agreement not to use three WTO provisions against China once it had entered the WTO. These provisions are anti-dumping, anti-subsidy and safeguards on textile imports from China.
TERRITORIAL AND BORDER ISSUES

17. (SBU) According to Zhou Wenrui, the PRC Embassy's Political Counselor, PM Khai reiterated in familiar terms Vietnam's "one-China" policy and "opposition" to Taiwan's independence. PM Wen and PM Khai also "briefly discussed" territorial and border issues. Although the land and sea border disputes between China and Vietnam have been "resolved," both sides exchanged views on implementing the June border agreement, which includes demarcation issues such as placing border markers. Zhou expressed confidence that this issue would continue to be a "positive area of cooperation" between the two sides. The China Institute's Dr. Sam was less sanguine, however. Local Chinese officials and residents close to the frontier continue to cause difficulties, such as by cultivating land and moving graves in territory Vietnam considers to be on its side of the border. "Vietnam has tried to complete the demarcation project, but some Chinese 'acts' continue to frustrate progress," Sam said. According to the Communist Party's Quang, only five to ten percent of the border markers have been placed, and Vietnam expects the process to take at least five more years.

18. (SBU) The dispute surrounding the Spratly Islands remains the most contentious territorial issue, both our Vietnamese and Chinese interlocutors agreed. According to the PRC Embassy's Zhou, China acknowledges Vietnam's "concerns" about the issue, in particular those related to China's recent agreement with the Philippines to explore jointly a disputed area. During his Hanoi visit, PM Wen had expressed his country's desire to have Vietnam join the two countries in this endeavor, but Vietnam had refused, Zhou said.

19. (SBU) Vietnamese Vice Foreign Minister Nguyen Phu Binh related to the Ambassador that Prime Minister Khai had told PM Wen that China's actions were in violation of the South China Sea Declaration of Conduct and ran contrary to a separate PRC-Vietnam agreement on the issue. PM Khai called on his counterpart not to implement the deal with the Philippines. PM Wen had responded that China's joint exploration agreement with the Philippines did not contravene the Declaration of Conduct and "does not affect the national interests of Vietnam," Binh said. China invited Vietnam to join the China-Philippines project, but PM Khai responded that Vietnam does not share China's view. Vietnam believes that any and all agreements related to the disputed territory have to involve all the claimants and not just a select few, Binh continued. Were Vietnam to join, it would send the message to the region that Vietnam sought to cut its own deals. Ultimately, however, Vietnam wants to "maintain good relations" with China and does not want to "add to bilateral tensions," Binh concluded.

VISIT EXCEEDS EXPECTATIONS; VIETNAM INVITES HU JINTAO

10. (SBU) Apparently, pre-ASEM logistical and administrative concerns shared with us by our EU and Japanese colleagues knew no ideological bounds. According to the PRC Embassy's Zhou, who was control officer for the Wen visit, the PRC Embassy was "very worried" about whether Vietnam would be able to pull off a successful visit. However, although there were some "minor" problems, Wen's bilateral visit and the overall ASEM summit went off without a hitch, Zhou said. As for future high-level visits to Hanoi, Party General Secretary Nong Duc Manh extended an invitation to PRC

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President Hu Jintao to visit Hanoi, but there are no firm dates on the horizon, Zhou said.

COMMENT

11. (SBU) Although Taiwan came up only briefly during Wen's visit, the island looms large in China's and Vietnam's desire to raise the level of the economic relationship to that of the political one. Vietnam's trade and investment ties with Taiwan are booming, and there is the perception here that economic relations with Taiwan -- especially Taiwanese investment -- are among the most advantageous that Vietnam enjoys. In contrast, there is also increasingly the feeling here that, in spite of China's proximity and size, it is doing much less for Vietnam than it could. That feeling contrasts uncomfortably with Vietnam's close political and ideological ties with Beijing.

12. (SBU) Comment, continued: The contradiction between the

robust economic relationship with Taiwan and the political rejection of Taipei that are a sine qua non of the relationship with Beijing are troubling to Vietnam's leadership. Both Beijing and Hanoi recognize that the best way to change this dynamic is to improve bilateral economic relations, and this is driving the efforts to break down barriers to trade. In spite of these efforts, however, neither China nor Vietnam intends to roll over on the sensitive issues related to Vietnam's WTO bid, and we can expect continued heated discussions as the deadline approaches.

13. (SBU) Comment, continued: While press accounts of the Wen visit refer to an agreement in which Vietnam pledges not to use three WTO provisions, our GVN counterparts have declined to confirm this or provide a copy of the document. We find it surprising that the GVN would have signed a binding agreement at this point unless the bilateral negotiations between Vietnam and China had closed out, and our Chinese and Vietnamese interlocutors confirm that negotiations are ongoing. We should know more after the WTO United States-Vietnam market access accession negotiations in Washington the week of October 25. End Comment.
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